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**THE ECONOMIC EFFECTS OF THE NEW JERSEY PERFORMING ARTS CENTER**

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the study will examine the potential implications of many of the impacts of a performing arts center.

HR&A

*Hamilton, Rabinovitz & Alschuler, Inc.*

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Los Angeles • New York

**EXECUTIVE SUMMARY**

**THE ECONOMIC EFFECTS OF  
THE NEW JERSEY PERFORMING ARTS CENTER**

**FUNDED BY  
THE VICTORIA FOUNDATION**

**FEBRUARY, 1990**

**HAMILTON, RABINOVITZ & ALSCHULER, INC.**

**NEW YORK**

**LOS ANGELES**

## **I. Introduction.**

The passion and excitement of the performing arts embellish urban centers with more than an abstract expression of our humanity. Collectively, the enterprise of the arts creates a powerful economic engine capable of providing a significant impetus that can drive the process of civic revitalization. Artists earn and spend, those industries that serve the arts grow and, most importantly, the spending of those hundreds of thousands of patrons who care for the arts can infuse underutilized urban landscapes with the energy and form.

Calculation of many of the impacts of major art centers defies the use of simple measures. For example, the expansion of the horizons of a city's young people or palpable changes to the street scape are virtually impossible to quantify. Other effects - such as increases to jobs, taxes, and economic activity - can be calculated. It is these effects that are the subject of this study which was commissioned by the New Jersey Performing Arts Center (NJPAC) and funded by the Victoria Foundation. Specifically, our assigned task was to quantify the economic effects of realizing the collective vision of the State of New Jersey, the City of Newark, and the Board of the Arts Center of a world class performing arts center to be built in downtown Newark in the next decade.

This Executive Summary is a synopsis of the methodology employed in that study and the results obtained. In brief, our research leads us to believe that the construction of the Performing Arts Center will have a significant stimulative effect on the City of Newark and the State of New Jersey. The development of NJPAC will create over **10,000 new job years** or roughly **1,000 jobs per year** and will also provide **\$22 million in tax revenue** to the State and **\$19 million in taxes** to the City. In addition, when NJPAC is fully operational, it will result in:

- \* **647,000 attendees of Center events annually.**
- \* **Over \$12 million in new spending in Newark annually, mostly on food, lodging, parking, and retail shopping.**
- \* **An annual increase of \$35 million to the gross product of New Jersey and a \$28 million annual increase for Newark.**
- \* **The creation of 478 jobs in the State, of which 379 will be in Newark.**

- \* An annual increase in tax revenue to the City of between \$1.8 million and \$3.4 million.

As has been the case in Pittsburgh, Cleveland, Baltimore, and in other cities, the arts can make an important contribution to the process of civic revitalization. An explication of the methodology employed in this study and a fuller description of its findings follows.

## **II. Project Scope.**

This study projects the economic effects of the construction and operation of three cultural facilities built by the NJPAC and a hotel/office complex to be built by a private developer on land owned by the NJPAC. In addition, we have included estimates of development within the adjacent cultural district. Specifically, we have assumed that the NJPAC site will be home to:

- \* A 2,500 seat Concert Hall to be completed by 1994 at a cost of \$72 million.
- \* A 1,800 seat Multi-Use Theatre constructed at a cost of \$87 million by the year 1996.
- \* A 600 seat Dance/Drama Theatre to be completed by 1998 at a cost of \$20 million.
- \* A 425,000 square foot hotel/office complex, including 380 hotel rooms, to be completed by a private developer by the 2001.

In sum, the cost of constructing the three public facilities is assumed to be \$179 million. In addition, infra-structure costs are estimated to be \$24 million and the construction costs incurred by the developer of the hotel/office complex to be \$57 million.

## **III. Methodology.**

Hamilton, Rabinovitz & Alschuler, Inc. (HR&A) was asked to conduct this study in recognition of the firm's extensive experience in complex economic and fiscal analysis. Prior assignments have ranged from an annual calculation of the effects of the operations of the Jacob K. Javits Convention Center on the economies of the City and State of New York to a projection for the U.S. Air Force of the economic and fiscal impacts of the planned construction of the MX missile, the largest construction project ever envisioned in this nation. The NJPAC assignment employed a conservative, rigorous methodology consistent with those previous efforts. In addition, HR&A examined virtually every major economic impact study of arts institutions previously prepared by other firms. This review was further supplemented by the conduct of case study reviews of the impacts of arts centers in Baltimore,

Cleveland, Pittsburgh and Louisville and the methodologies employed to calculate those impacts. It is worth noting that while this study is more cautious in some respects than these other analyses, our projections of the effects of NJPAC are consistent with the results of these respected studies of already operational facilities.

The major methodological building blocks employed were as follows:

**A. GEOGRAPHIC UNITS OF ANALYSIS.** The study calculates the effects on the State of New Jersey, Essex County, and the City of Newark. For ease of reporting, only the effects on the City and the State are included in the Executive Summary.

**B. CONSTRUCTION AND ANNUAL EFFECTS.** The study calculates the one time, cumulative construction impacts over the nine years required to complete the projected build out, from 1992 to 2001. We also report on the recurring annual effects of operations of the Center at full build out, though calculations were also performed for two intermediate years, 1997 and 2,000.

**C. LEVELS OF NJPAC OPERATIONS.** The study performed for the State of New Jersey by the Carl Shaver Company provided the basis for the calculation of the operating expenditures for each facility its programing mix, the number of performance and rehearsal days, and the volume of ticket sales by price category.<sup>1</sup> Using that study as a base, HR&A assumed that 75% of the available tickets are purchased in the third operating year. To the extent that utilization exceeds that threshold, the projections of economic effects are understated.

**D. CALCULATION OF INCREMENTAL EFFECTS.** Incremental effects are those that are in addition to expenditures that would have been made in Newark or in New Jersey in the absence of the NJPAC. Therefore, only spending by visiting artists is included in the analysis, since it is assumed that spending by Newark artists will occur in Newark regardless. Further, the NJPAC budget is counted as an increment which includes all revenues from ticket and concession sales that remain in the City. Spending by non-Newark residents has been treated as incremental, except for a 25% reduction applied to account for cultural and related expenditures that might have been incurred in the absence of NJPAC. The resulting calculations produced the estimate of incremental Direct Spending.

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<sup>1</sup> In addition, HR&A reviewed these projections with the managers of five major cultural institutions and with representatives of 10 performing arts entities. As a result of this review, we employed slightly more cautious numbers than provided in the Shaver report.

**E. CALCULATION OF INDIRECT EFFECTS.** Indirect or "multiplier" effects were calculated by the input\output model of the Regional Input-Output Modeling System (RIMS) developed by the Bureau of Economic Analysis of the United States Department of Commerce. Using a standard regionalization procedure known as "location quotients," impacts were further regionalized to the City of Newark by means of employment ratios. The resulting calculations provide the basis for the estimates of Increases to Economic Activity and Jobs.

**F. CALCULATION OF STIMULATIVE EFFECTS.** Two different estimates were calculated of the effects of the Center on immediately adjacent real estate development. Each assumes that Newark continues throughout the next decade to experience a rejuvenation of its central business district. The low estimate of stimulative effects assumes the addition of one mixed use development and credits 5% of the effects of its total commercial build out and 10% of its residential component to the NJPAC. The high end takes a more expansive view of the future. It assumes that an additional 772,000 square feet of commercial and 392,000 square feet of residential are constructed and credits the 10% of the commercial build out and 20% of the residential to NJPAC.<sup>2</sup> The actual effects are likely to fall somewhere between these two estimates.

**G. CALCULATION OF INCREMENTAL REVENUES TO THE CITY AND STATE.** Each new dollar spent and respent in the regional economy results in incremental revenues to the City and State government. Gross revenue to those jurisdictions was calculated by utilizing ratios developed by the Economic Policy Council and Office of the Economic Policy of the Department of Commerce, Energy and Economic Development of the State of New Jersey, which were adjusted to account for the effects of the tax benefits accorded to construction projects conducted in New Jersey's Urban Enterprise Zones.

#### **IV. Principal Findings and Conclusions.**

This section presents the principal findings and conclusions of the economic impact analysis of the New Jersey Center for the Performing Arts. They are as follows:

**A. CALCULATION OF DIRECT IMPACTS.** The total economic impact of the Center are generated by the direct effects of its operations, including these:

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<sup>2</sup> The remaining effects are assumed to result from economic phenomena unrelated to the presence of the Center and hence cannot be assumed to be incremental impacts of the Center itself.

\* By 1997, we estimate that the Center will attract 471,000 patrons. This number should rise to 647,000 by the year 2003 when the third building is complete and fully operational.

\* By 2003, those patrons, visiting artists, and the NJPAC itself, will increase spending in Newark by \$12.3 million dollars.

\* More than half of the patron and artist spending, \$4.9 million, will be for food. Other major categories of expenditures will be for visiting artist lodging, related shopping, and parking and transportation.

**B. THE IMPACTS OF THE CONSTRUCTION OF THE CENTER.** The effects of expending \$179 million to construct the three performing arts facilities plus the additional spending by the private developer create substantial one time effects that span the near decade of time necessary to construct the NJPAC. Those effects include:

\* Increase in the gross product of Newark of \$57 million and an increase in the gross product of the State by \$81 million in the year 1992 alone. Increases vary in subsequent years as construction expenditures rise and fall.

\* Aggregate increases to the gross products of State during the construction period of between \$849 million and \$1.1 billion and between \$592 million and \$765 million for the City.

\* Aggregate increases of \$194 million in personal income between 1992 and 2001 for those who work in the State and of \$129 million for those who work in Newark.

\* Creation during that period of 10,400 work years (where one job is calculated as equal to one work year) in the State and 6,700 work years in the City of Newark.

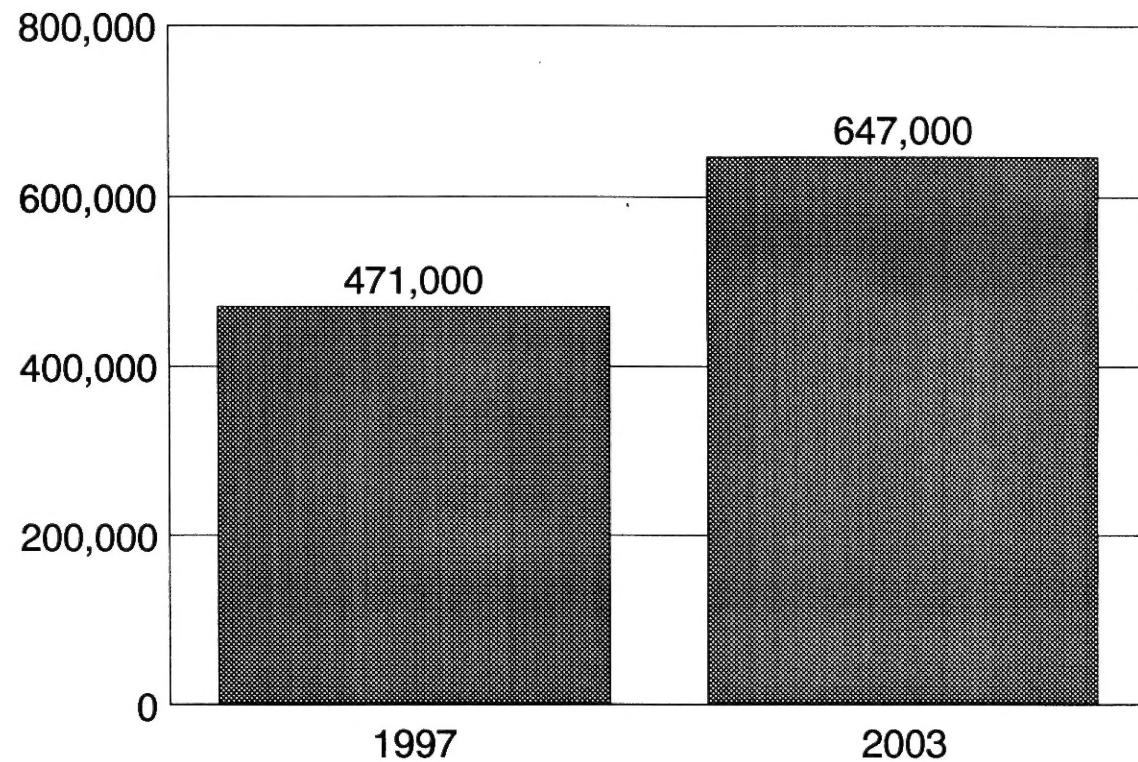
\* Revenues generated by construction of NJPAC should exceed \$21 million to the State taking into account the tax exemption effects of the Urban Enterprise Zone and of \$19 million to the City.

**C. INDIRECT ANNUAL EFFECTS OF THE OPERATION OF THE FULL OPERATION OF THE CENTER.** When the Center is constructed and after an initial period of audience development, the ongoing, stimulative effects on the economy as calculated with the input-output model are calculated as follows:

- \* The annual recurring increase to the gross product of the City and the State should be \$35 million and \$28 million respectively.
- \* That increase in the level of economic activity should support an additional 478 jobs in the State of which approximately 379 should be in the Newark.
- \* The tax revenues attributable to the NJPAC received by the City of Newark should range from between a low \$1.8 million and a high of \$3.4 million, depending on the amount of related development stimulated by the presence of the Center.

Those wishing a fuller presentation of these findings or a more detailed description of the methodology employed are encouraged to review the full report.

# Projected Attendance



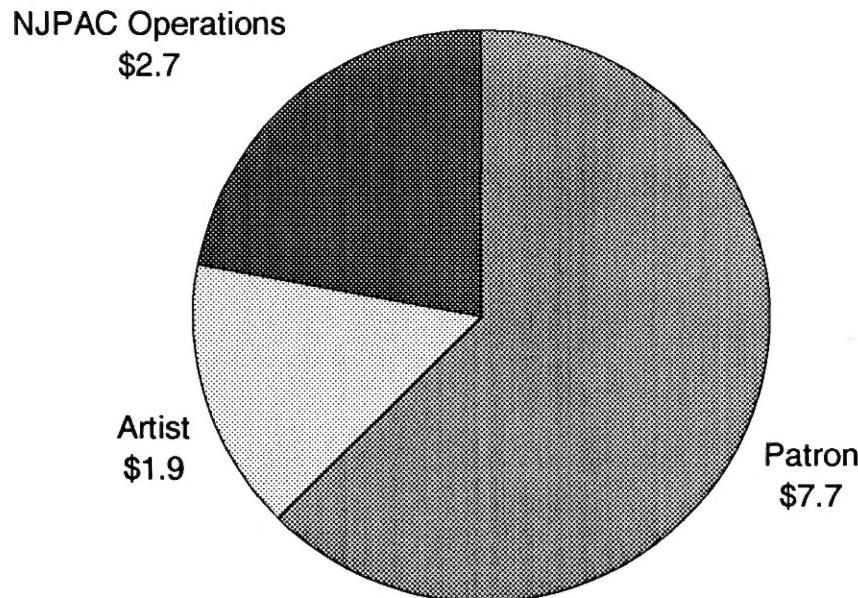
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**The New Jersey Performing Arts Center**

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# New Spending

## Patron, Artist and Operations Expenditures at Full Operation - 2003



**Total: \$12.3 Million**

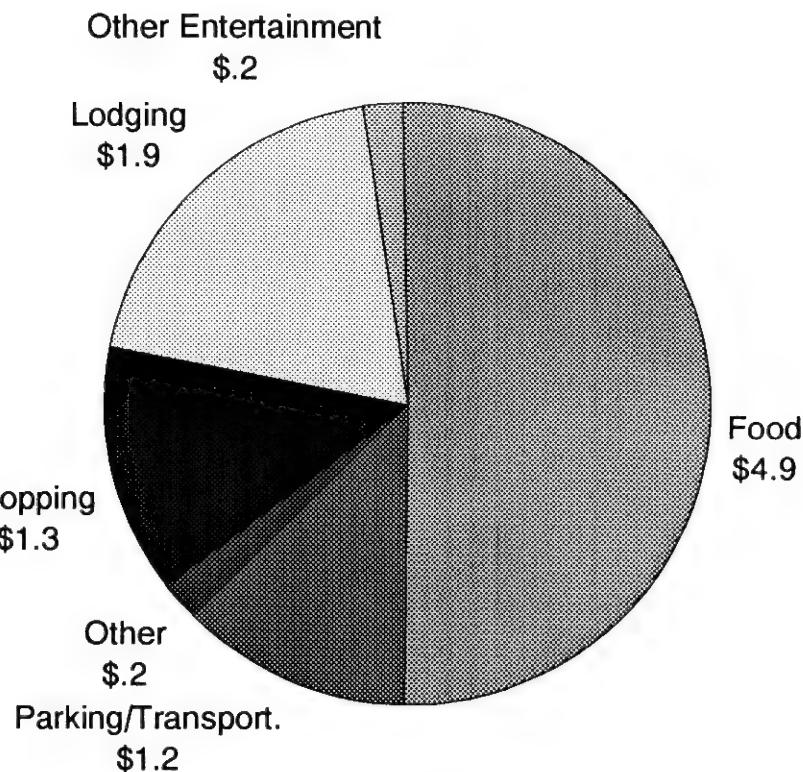
in Present \$'s Millions

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**The New Jersey Performing Arts Center**

# Where the Spending Goes

## Patron and Artist Expenditures by Category at Full Operation - 2003



**Total: \$9.6 Million**

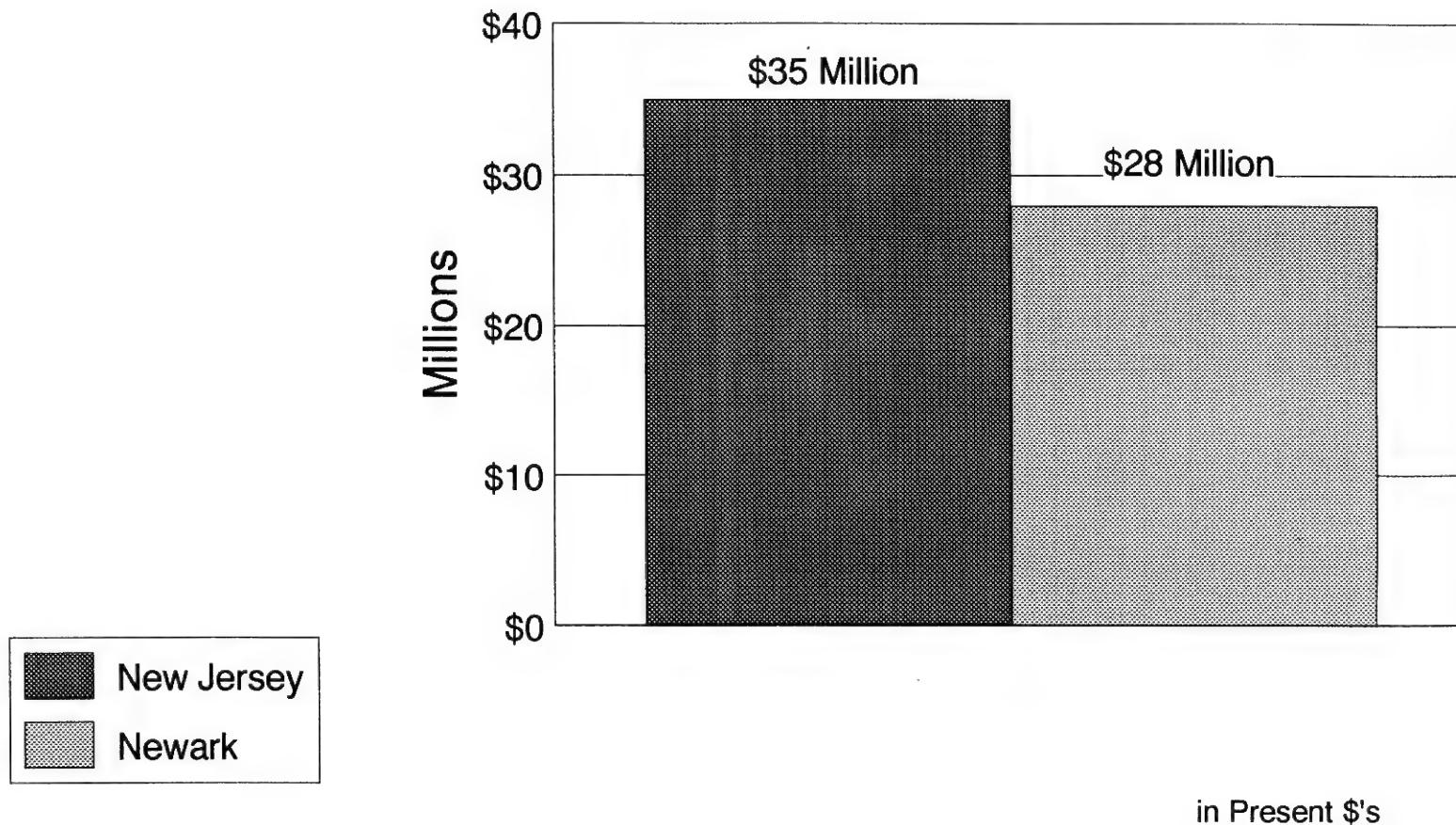
in Present \$'s Millions

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**The New Jersey Performing Arts Center**

# New Economic Activity

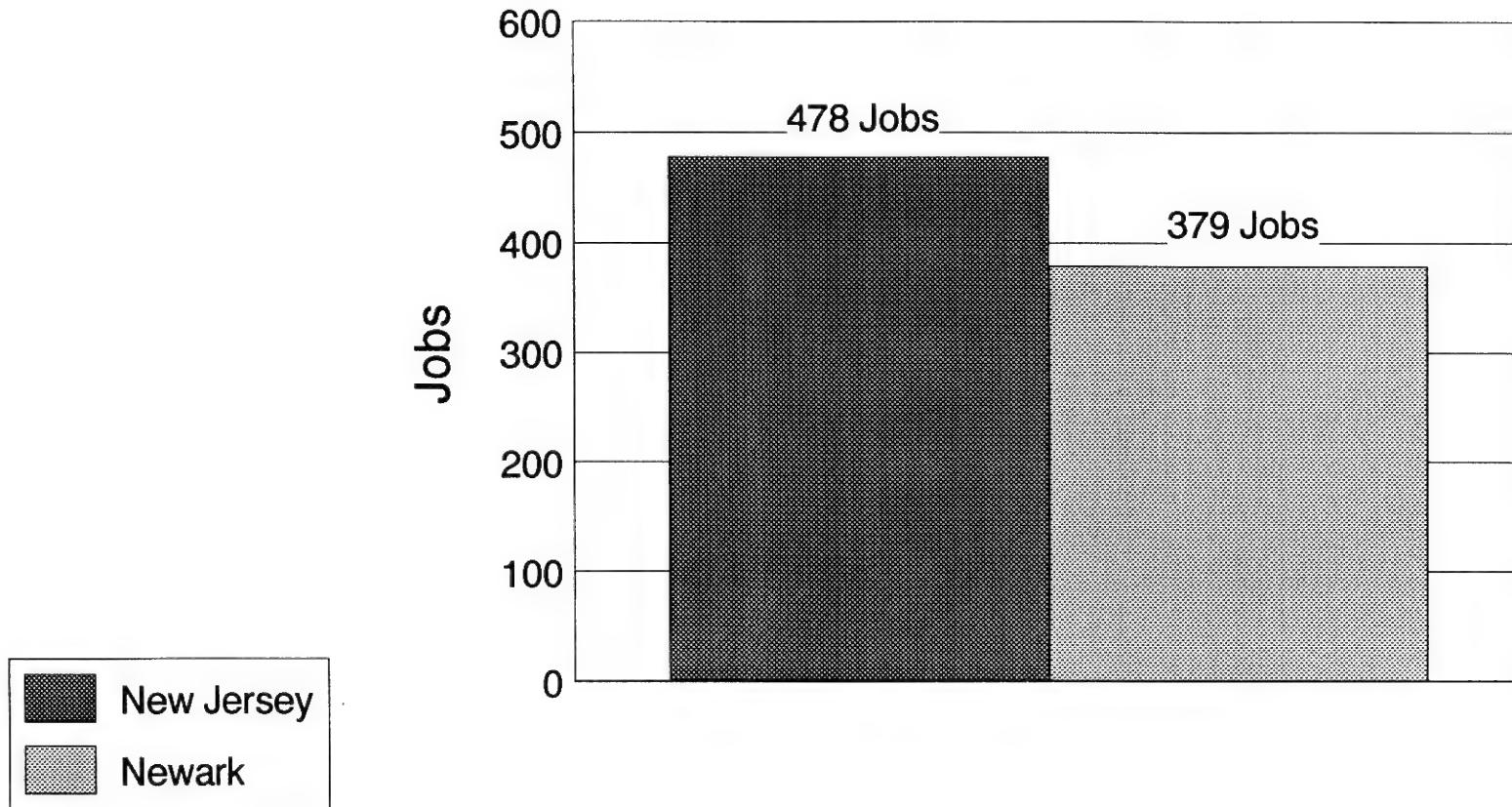
## Annual Impact on Gross Product at Full Operation - 2003



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# New Permanent Jobs Throughout the Economy

Jobs Due to Patron, Artist & NJPAC Expenditures at Full Operation - 2003



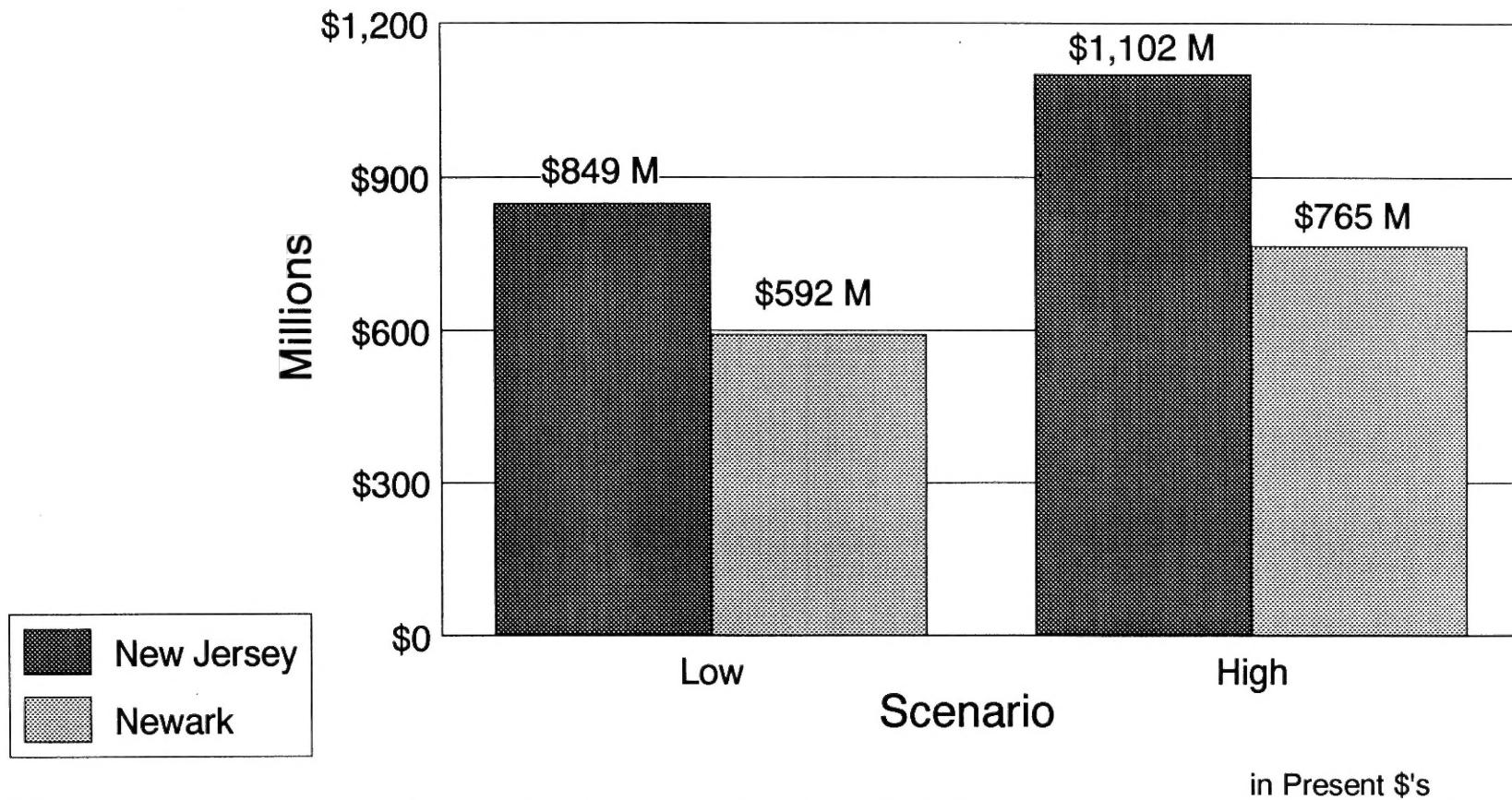
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# New Economic Activity

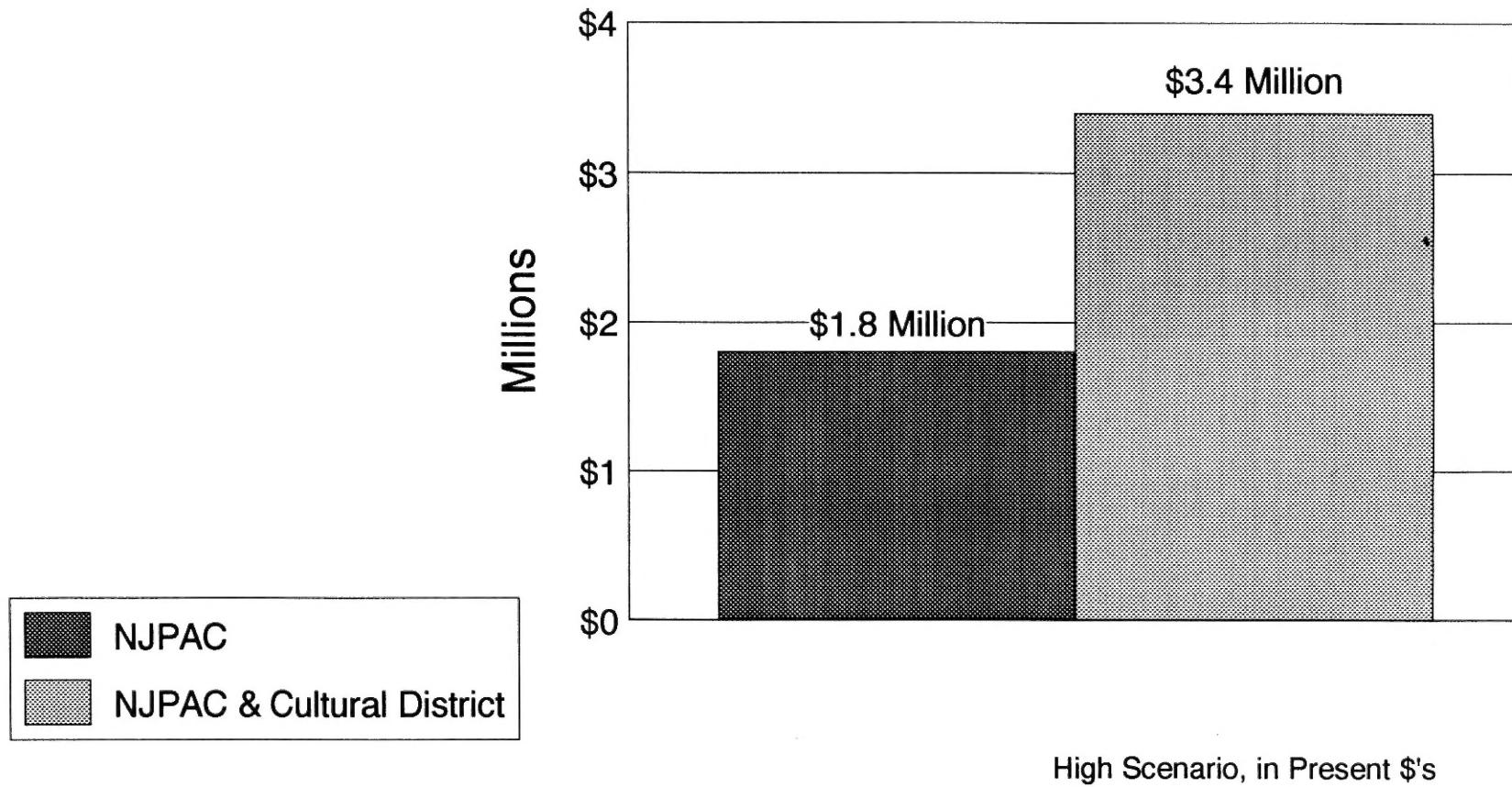
## Gross Product Impact of NJPAC & Cultural District Development, 1992 - 2003



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# New Annual Tax Revenues for Newark

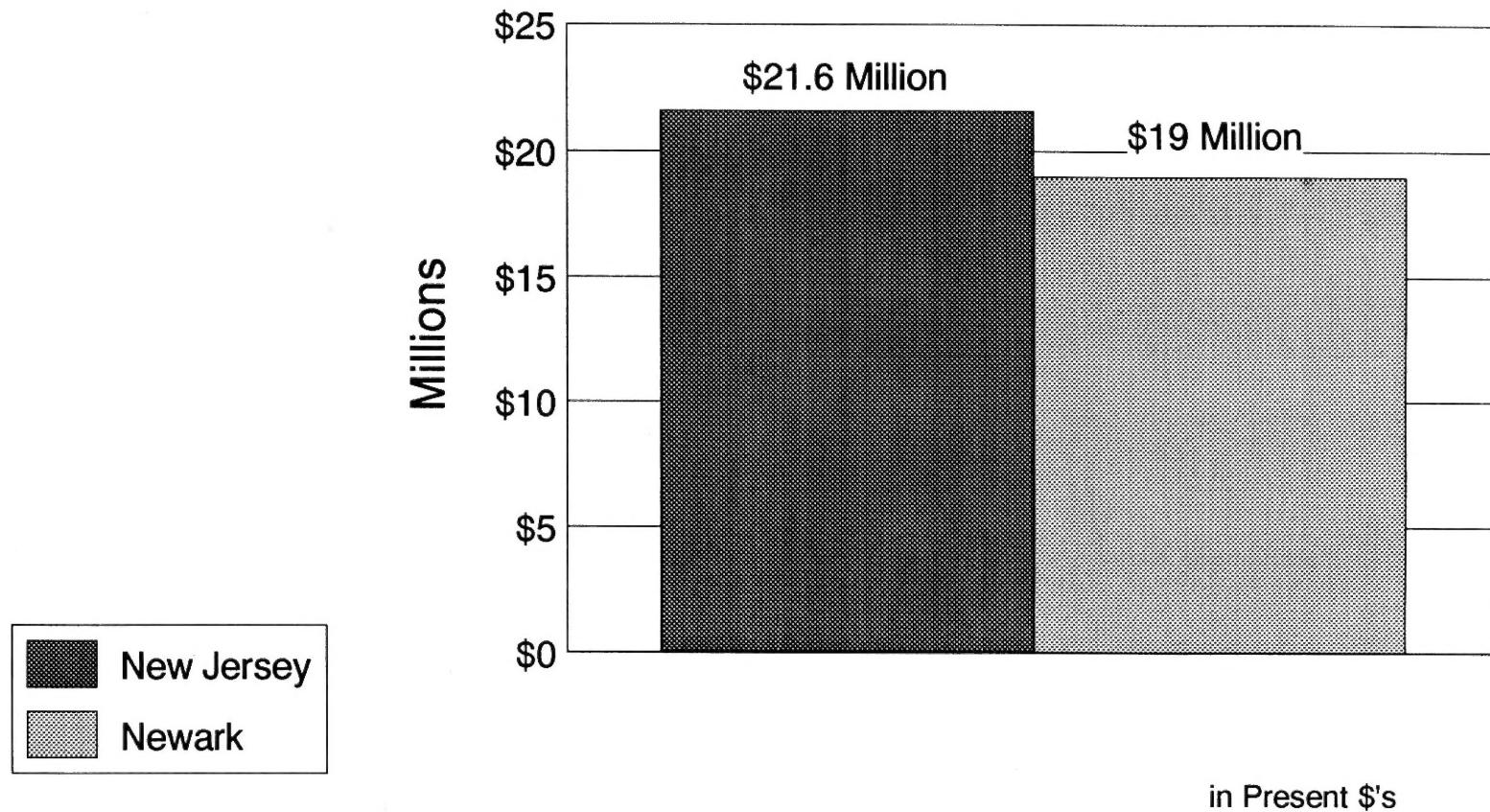
## Property and Other Taxes Generated at Full Operation - 2003



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# Taxes from Construction

## Revenues Generated by NJPAC Construction, 1992 - 2003

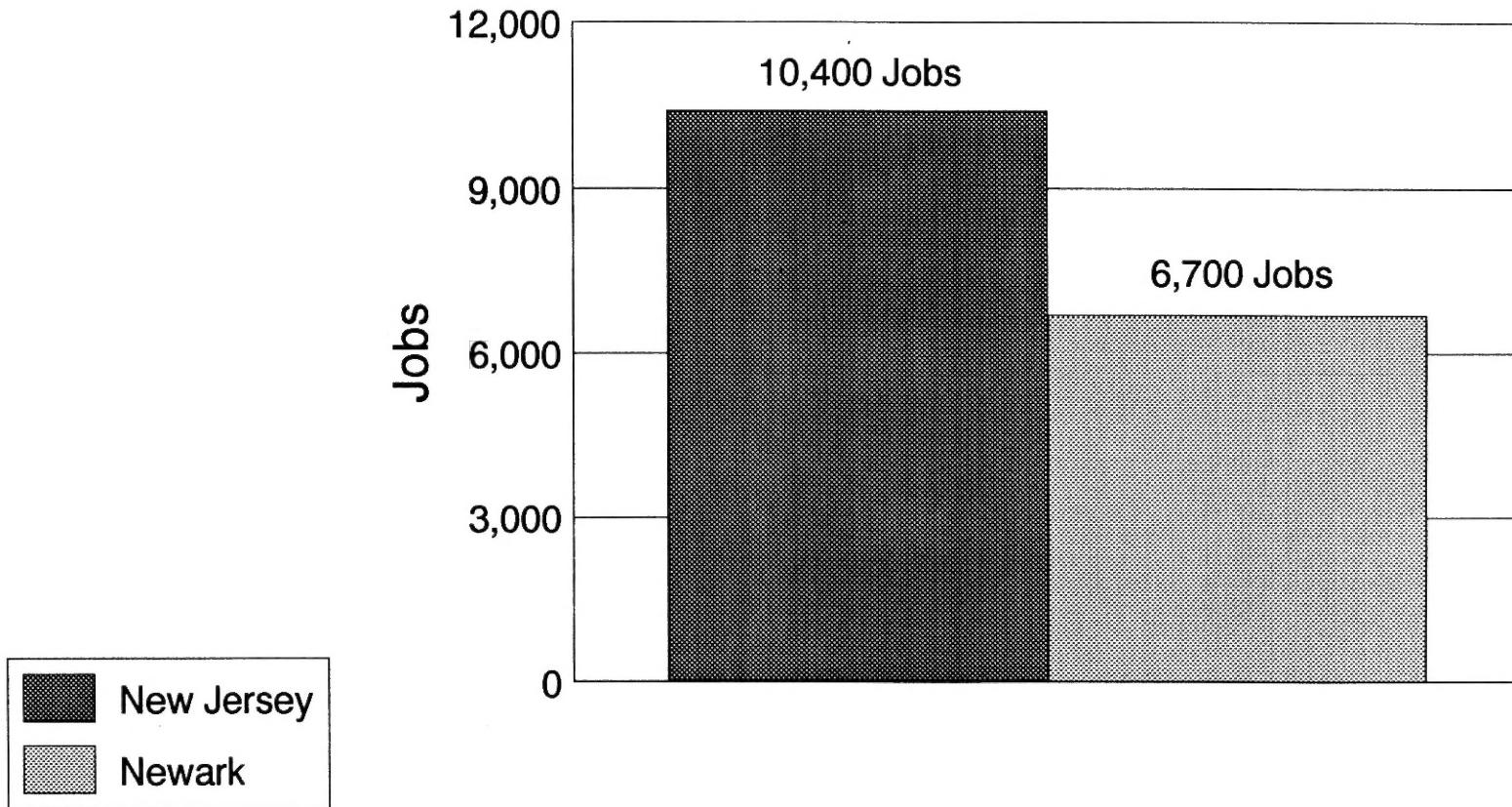


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# New Jobs Related to Construction

NJPAC and Cultural District, 1992 - 2003



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